

Legislative Audit Division

State of Montana



Report to the Legislature

December 1998

Financial-Compliance Audit For the Fiscal Year Ended June 30, 1998

Public Employees' Retirement Board

**Department of Administration
A Component Unit of the state of Montana**

This report contains the financial statements and our independent auditor's report for the Public Employees' Retirement Board as of June 30, 1998 and 1997 and for the two fiscal years then ended.

The Public Employees' Retirement Board administers the following retirement systems:

- ▶ **Public Employees' Retirement System**
- ▶ **Municipal Police Officers' Retirement System**
- ▶ **Game Wardens' and Peace Officers' Retirement System**
- ▶ **Sheriffs' Retirement System**
- ▶ **Judges' Retirement System**
- ▶ **Highway Patrol Officers' Retirement System**
- ▶ **Firefighters' Unified Retirement System**
- ▶ **Volunteer Firefighters' Compensation Act**

The report contains no recommendations to the Board.

**Direct comments/inquiries to:
Legislative Audit Division
Room 135, State Capitol
PO Box 201705
Helena MT 59620-1705**

98-08

Help eliminate fraud, waste, and abuse in state government. Call the Fraud Hotline at 1-800-222-4446 or 444-4446.

FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 1999, will be issued by March 31, 2000. Copies of the Single Audit Report, when available, can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

Legislative Audit Division
Room 135, State Capitol
PO Box 201705
Helena MT 59620-1705

MEMBERS OF THE LEGISLATIVE AUDIT COMMITTEE

Senator Linda Nelson, Chair
Senator Sue Bartlett
Senator Reiny Jabs
Senator Tom Keating
Senator Ken Miller
Senator Barry "Spook" Stang

Representative Bruce Simon, Vice Chair
Representative Beverly Barnhart
Representative Ernest Bergsagel
Representative A. R. "Toni" Hagener
Representative Bob Keenan
Representative Robert Pavlovich

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

December 1998

To the Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Public Employees' Retirement Board (PERB), a component unit of the state of Montana, for the fiscal year ended June 30, 1998. The PERB administers Montana's Retirement Systems and the Volunteer Firefighters' Compensation Act. Responsibility for the accuracy of the financial records and preparation of the financial statements rests with the Public Employees' Retirement Division (division).

The objectives of our audit were to:

- ▶ Determine the division's compliance with applicable laws and regulations.
- ▶ Recommend improvements in the division's management and internal controls.
- ▶ Determine if the financial statements prepared by the division fairly present the financial position of the PERB as of June 30, 1998, and the changes in financial status for the year then ended, in conformity with generally accepted accounting principles.
- ▶ Determine the implementation status of the prior audit recommendation related to the actuarial soundness of the Judges' Retirement System.

We issued an unqualified opinion on the financial statements of the PERB. An unqualified opinion means a reader can rely on the information presented in the financial statements. The independent auditor's report appears on page A-1 of this report. The financial statements and related note disclosure begin on page A-5.

This report contains no recommendations for the division. Areas of concern deemed not to have a significant effect on the successful operations of the division are not included in this report, but have been discussed with division management.

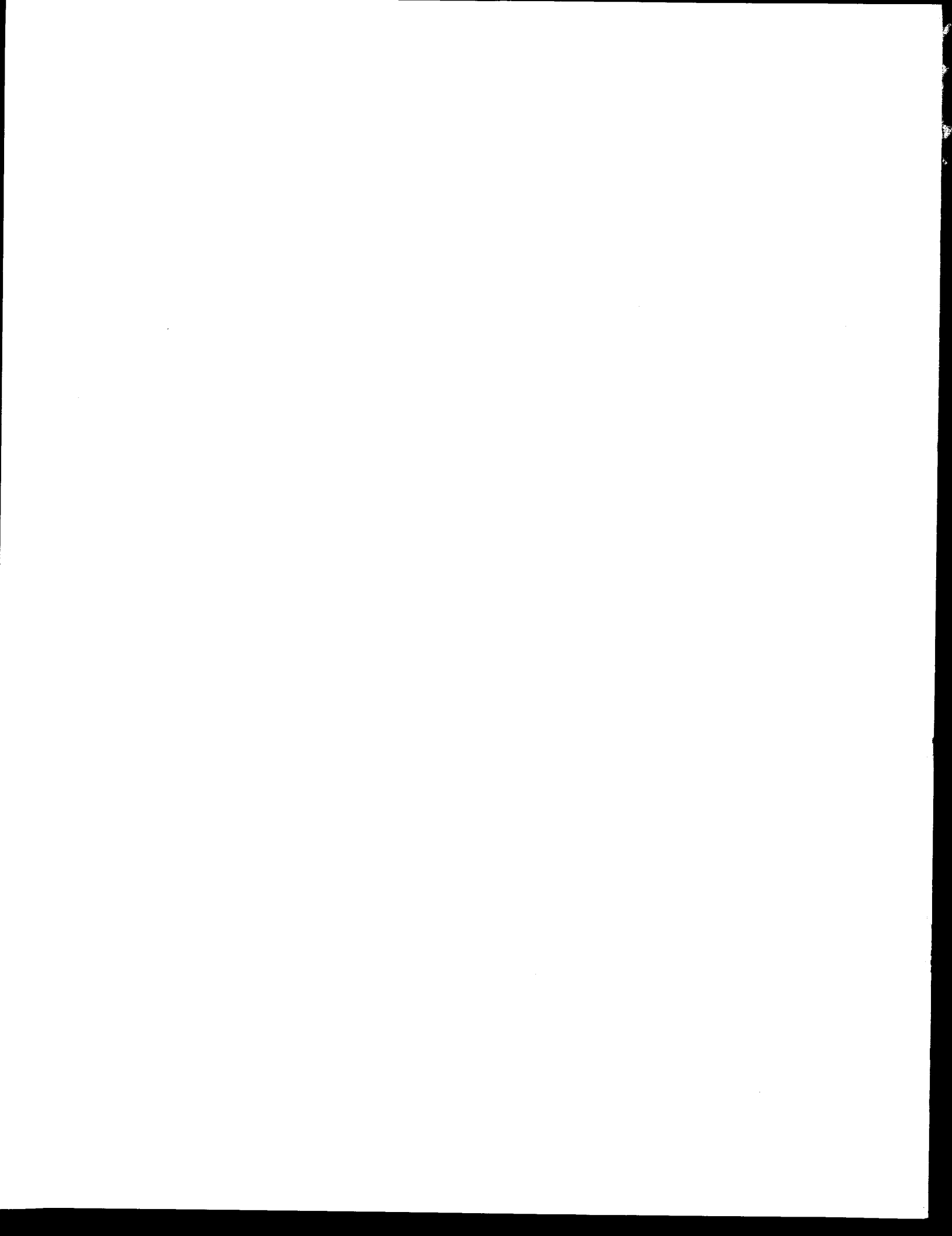
Our office completed a financial-compliance audit of the division for the two fiscal years ended June 30, 1996 and a financial audit for the fiscal year ended June 30, 1997. The prior financial-compliance audit report contained one recommendation, which has been implemented, related to the Judges' Retirement System.

Our audit opinion on the financial statements is also contained in the PERB Comprehensive Annual Financial Report. Copies of the annual report for fiscal year 1997-98 can be obtained from the Public Employees' Retirement Division or from our office. The annual report contains additional background, statistical, and actuarial information not included in this audit report which may be of interest to legislators or the public.

Division management reviewed and agreed with the contents of the report. We thank the administrator and his staff for their assistance and cooperation.

Sincerely,

A handwritten signature in black ink, appearing to read "Scott A. Seacat".
Scott A. Seacat
Legislative Auditor



Appointed and Administrative Officials

Public Employees' Retirement Board Members

		Term <u>Expires</u>
Terry Teichrow, President	Helena	3/31/00
Carole Carey, Vice President	Ekalaka	3/31/02
Robert Griffith	Helena	3/31/03
Carol Lambert	Hammond	3/31/01
Troy McGee	Helena	3/31/03
Jean Thompson	Billings	3/31/99

Division Administrative Officials

Mike O'Connor, Administrator

Kim Flatow, Benefits Bureau Chief

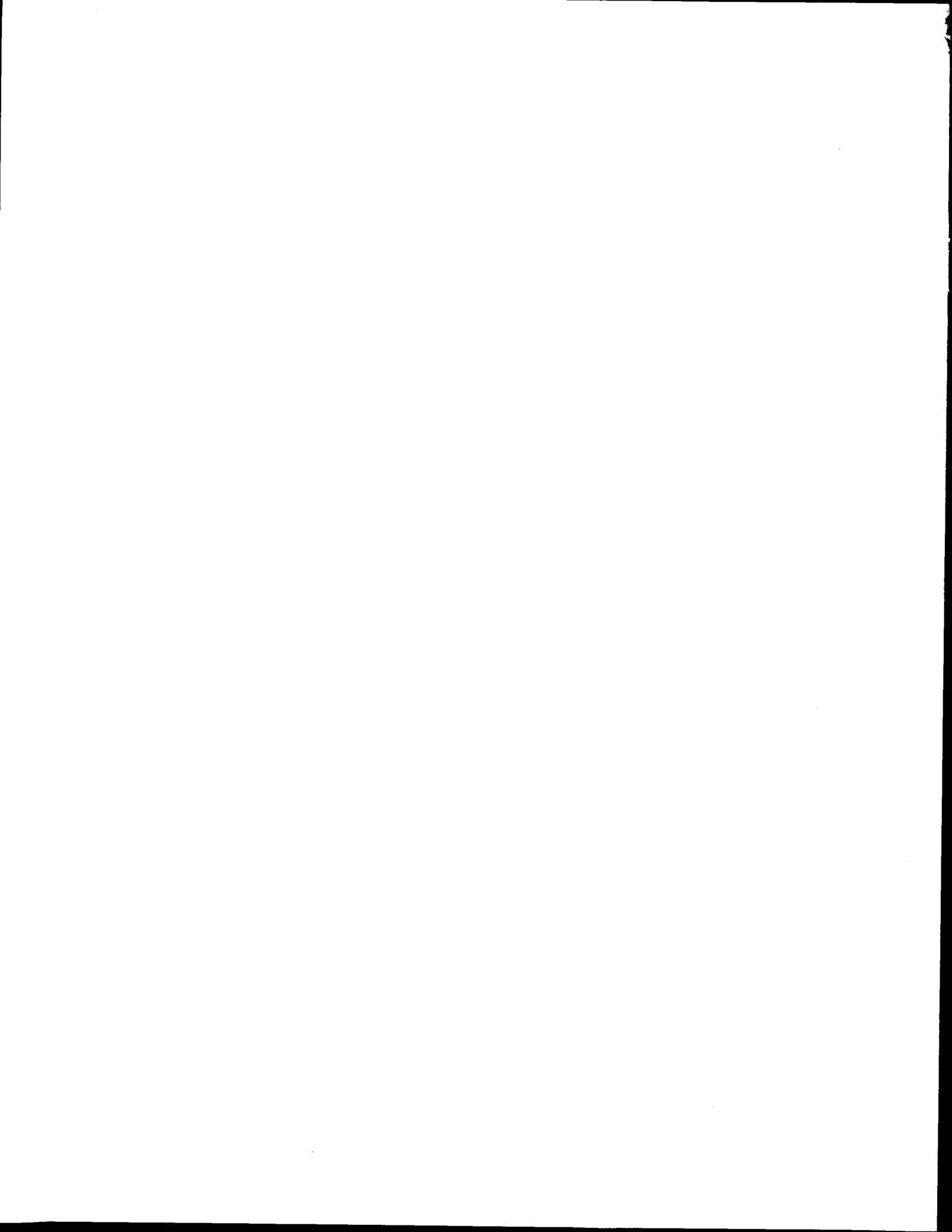
Roxanne Minnehan, Operations Bureau Chief

For additional information concerning the Montana Public Employees'
Retirement Division, contact Mike O'Connor, Administrator, at:

1712 Ninth Avenue
PO Box 200131
Helena MT 59620-0131
(406) 444-3154

e-mail: moconnor@state.mt.us

Members of the audit staff involved in this audit were Wayne D. Guazzo, Cindy S. Jorgenson, Christopher D. May, Susan McEachern, and Charles Nemec.



LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Combined Statement of Plan Net Assets and Combined Statement of Changes in Plan Net Assets of the Public Employees' Retirement Board, a component unit of the state of Montana, as of June 30, 1998 and 1997, and for the two fiscal years then ended. The information contained in these financial statements is the responsibility of the Public Employees' Retirement Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Public Employees' Retirement Board as of June 30, 1998 and 1997, and its changes in plan net assets for the two fiscal years then ended, in conformity with generally accepted accounting principles.

The Schedule of Funding Progress and the Schedule of Employer Contributions and Other Contributing Entities are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of division management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James Gillett".

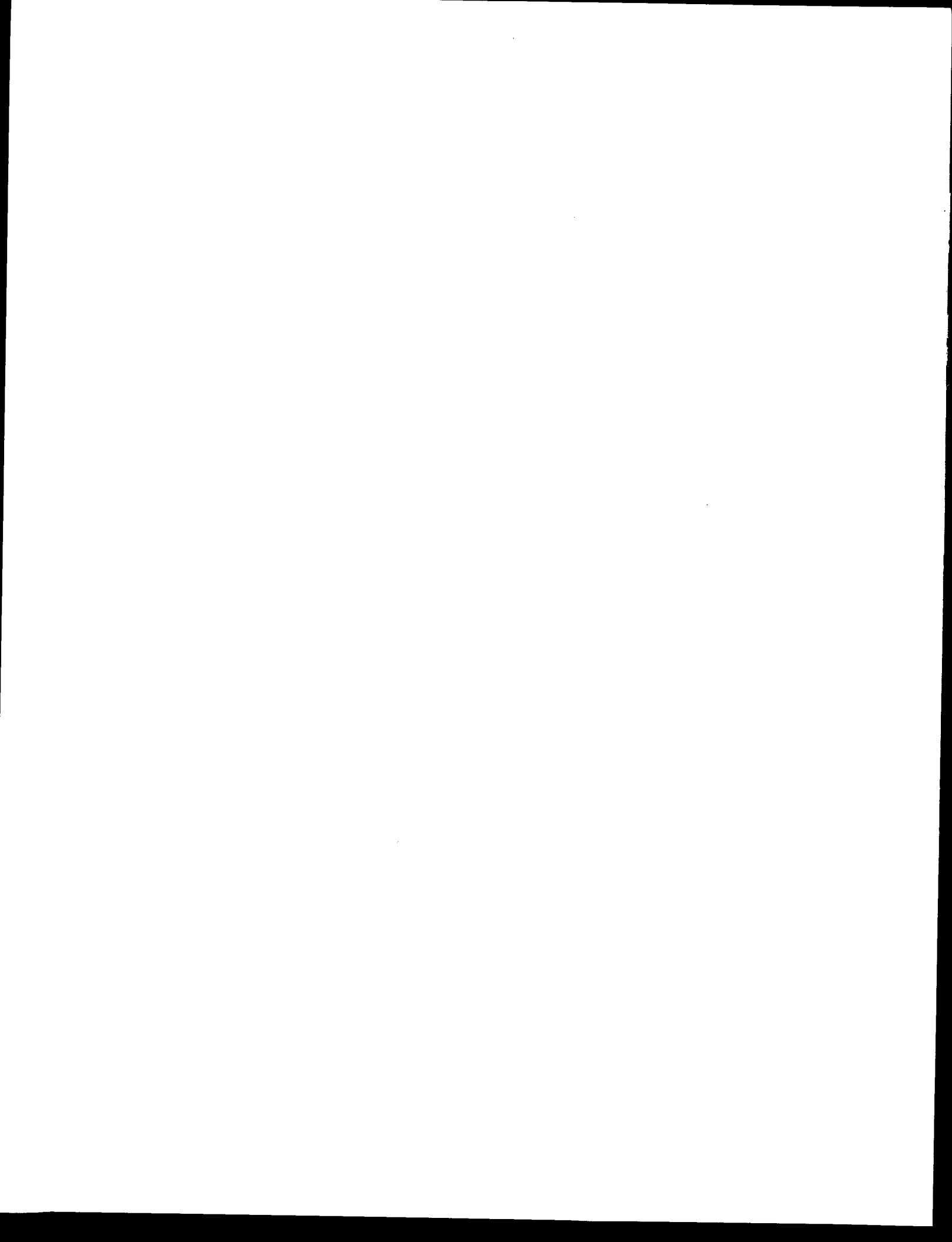
James Gillett, CPA
Deputy Legislative Auditor

September 28, 1998

Page A-1

Definition of Acronyms

PERS	Public Employees' Retirement System
MPORS	Municipal Police Officers' Retirement System
GWPORS	Game Wardens' and Peace Officers' Retirement System
SRS	Sheriffs' Retirement System
JRS	Judges' Retirement System
HPORS	Highway Patrol Officers' Retirement System
FURS	Firefighters' Unified Retirement System
VFCA	Volunteer Firefighters' Compensation Act



Public Employees' Retirement Board

Combined Statement of Plan Net Assets

as of June 30, 1998

With Comparative Totals for June 30, 1997

	PERS	MPORS	GWPORS
Assets			
Cash and Short-term Investments	\$ 49,622,844	2,543,138	949,739
Securities Lending Collateral (Note A.4.f.)	160,334,971	7,288,202	1,892,273
Receivables			
Interest	8,686,494	361,235	92,716
Accounts Receivable	7,099,723	5,528,941	73,142
<i>Total Receivables</i>	15,786,217	5,890,176	165,858
Investments, at fair value (Note A.4.)			
Montana Stock Pool	1,147,592,622	49,341,010	12,638,457
Montana International Pool	79,846,525	1,917,249	479,312
Leveraged Buy-Outs	54,463,667	2,178,541	544,638
Mortgages & Commercial Loans	121,779,262		
Real Estate Investment	2,703,564		
Retirement Fund Bond Pool	960,281,599	46,655,892	11,985,822
Venture Capital	10,740,461		
<i>Total Investments</i>	2,377,407,700	100,092,692	25,648,229
Property and Equipment, at cost, net of accumulated depreciation (Note A.3.)	146,716		
<i>Total Assets</i>	2,603,298,448	115,814,208	28,656,099
Liabilities			
Securities Lending Collateral Liability	160,334,971	7,288,202	1,892,273
Accounts Payable	6,249,737	434,720	62,295
Deferred Revenue	44,707	3,095	5,575
Compensated Absences	116,063		
<i>Total Liabilities</i>	166,745,478	7,726,017	1,960,143
Net Assets Held in Trust for Pension Benefits			
(see schedule of funding progress for each plan, page A-27)	\$ 2,436,552,970	108,088,191	26,695,956

The notes to the financial statements are an integral part of this statement.

Page 5
10/17

TOTALS

GWPORS	SRS	JRS	HPORS	FURS	VFCA	1998	1997
949,739	3,604,038	796,999	1,572,865	3,363,215	1,219,623	63,672,461	74,383,938
1,892,273	7,470,214	2,649,210	4,965,432	6,830,309	1,330,066	192,760,677	281,050,822
92,716	365,910	128,527	243,694	339,080	61,144	10,278,800	11,972,197
73,142	280,897	40,229	190,262	4,941,452		18,154,646	16,773,157
165,858	646,807	168,756	433,956	5,280,532	61,144	28,433,446	28,745,354
12,638,457	49,977,001	16,809,370	31,851,279	47,410,854	4,104,356	1,359,724,949	1,065,815,431
479,312	1,917,249	958,625	1,437,937	1,437,937	479,312	88,474,146	73,835,027
544,638	2,178,543	1,089,274	1,633,911	1,633,912	544,638	64,267,124	44,533,536
						121,779,262	97,908,223
						2,703,564	2,531,000
11,985,822	47,269,959	16,663,070	31,747,117	43,684,618	8,810,183	1,167,098,260	1,090,780,060
						10,740,461	10,164,451
25,648,229	101,342,752	35,520,339	66,670,244	94,167,320	13,938,489	2,814,787,766	2,385,567,728
						146,716	237,539
28,656,099	113,063,811	39,135,304	73,642,497	109,641,376	16,549,322	3,099,801,066	2,769,985,381
1,892,273	7,470,214	2,649,210	4,965,432	6,830,309	1,330,066	192,760,677	281,050,822
62,295	107,501	83,815	169,445	364,186	38,656	7,510,356	829,213
5,575	2,505		585	9,015		65,482	21,015
						116,063	107,259
1,960,143	7,580,220	2,733,025	5,135,462	7,203,510	1,368,722	200,452,578	282,008,309
26,695,956	105,483,591	36,402,279	68,507,035	102,437,866	15,180,600	2,899,348,488	2,487,977,072

page A-5
2 of 2
overleaf

Public Employees' Retirement Board

Combined Statement of Changes in Plan Net Assets for the Year Ended June 30, 1998 With Comparative Totals for June 30, 1997

	PERS	MPORS	GWPORS
Additions			
Contributions (Note B)			
Employer	\$ 45,048,492	2,635,431	818,246
Plan Member	48,526,536	1,960,008	776,034
Membership Fees	29,523		
Interest Reserve Buyback	20,535	735	13,749
Court Fees			
Retirement Incentive Program	196,250		
Registration Fees			
License Fee Collections			
State Contribution	303,840	5,264,852	
Total Contributions	94,125,176	9,861,026	1,608,029
Operating Income			
Charges For Services			
Operating Income	61,200		
Total Operating Income	61,200		
Investment Income (Note A.3.)			
Net Appreciation (Depreciation) in Fair Value of Investments	235,802,178	10,175,207	2,643,962
Interest	93,893,796	3,958,580	1,007,166
Dividends	18,857,569	787,191	204,367
Securities Lending Income	11,313,782	508,178	131,016
	359,867,325	15,429,156	3,986,511
Less:			
Investment Expense	1,708,619	47,431	11,900
Securities Lending Rebates and Fees	10,910,789	491,475	126,714
	12,619,408	538,906	138,614
Net Investment Income	347,247,917	14,890,250	3,847,897
Total Additions	441,434,293	24,751,276	5,455,926
Deductions (Note B)			
Benefits	87,379,510	7,697,161	1,123,020
Refund of Member Contributions	11,568,943	282,185	34,428
Employer Refund	568,284	36,811	
Supplemental Insurance Payments			
Administrative Expense	1,205,533	32,982	12,403
Bad Debt Expense			
Repairs & Maintenance	19,841		
Total Deductions	100,742,111	8,049,139	1,169,851
Net Increase	340,692,182	16,702,137	4,286,075
Net Assets Held in Trust for Pension Benefits			
Beginning of Year	2,095,925,421	91,386,054	22,409,881
Prior Period Adjustment (Note A.2.)	(64,633)		
End of Year	\$ 2,436,552,970	108,088,191	26,695,956
The notes to the financial statements are an integral part of this statement.			

Page A-7 1998

SRS	JRS	HPORS	FURS	VFCA	TOTALS	
					1998	1997
1,969,336	843,066	1,706,645	2,142,189		55,163,405	51,974,520
2,087,729	228,653	645,468	1,559,589		55,784,017	58,308,671
					29,523	28,218
74,299		6,478	147		115,943	123,888
					0	951,038
					196,250	1,579,322
		281,874			281,874	287,284
		688,197			688,197	644,350
			4,795,873	928,484	11,293,049	12,562,211
4,131,364	1,071,719	3,328,662	8,497,798	928,484	123,552,258	126,459,502
					0	1,820
					61,200	54,000
					61,200	55,820
10,311,463	3,585,902	6,842,082	9,714,602	1,042,629	280,118,025	286,271,935
4,002,004	1,440,027	2,669,557	3,698,481	776,208	111,445,819	96,725,284
797,902	274,201	524,247	754,684	62,921	22,263,082	19,910,163
515,054	182,704	344,332	478,972	83,028	13,557,066	17,520,534
15,626,423	5,482,834	10,380,218	14,646,739	1,964,786	427,383,992	420,427,916
47,620	20,882	33,834	39,403	9,382	1,919,071	1,587,199
498,141	176,583	332,980	463,387	80,515	13,080,584	16,569,889
545,761	197,465	366,814	502,790	89,897	14,999,655	18,157,088
15,080,662	5,285,369	10,013,404	14,143,949	1,874,889	412,384,337	402,270,828
19,212,026	6,357,088	13,342,066	22,641,747	2,803,373	535,997,795	528,786,150
1,742,696	1,304,458	3,771,004	6,493,959	772,742	110,284,550	103,596,860
201,525	6,519	157,919	24,242		12,275,761	10,874,484
1,691		20,877			627,663	269,392
				12,525	12,525	12,000
24,384	2,819	13,249	26,780	23,256	1,341,406	1,208,009
					0	348,314
					19,841	14,377
1,970,296	1,313,796	3,963,049	6,544,981	808,523	124,561,746	116,323,436
17,241,730	5,043,292	9,379,017	16,096,766	1,994,850	411,436,049	412,462,714
88,241,861	31,358,987	59,128,018	86,341,100	13,185,750	2,487,977,072	2,075,514,358
					(64,633)	
05,483,591	36,402,279	68,507,035	102,437,866	15,180,600	2,899,348,488	2,487,977,072

Page A-17
 2 of 2
 Side B
 Side

Public Employees' Retirement Board

Notes to the Financial Statements for the Fiscal Year Ended June 30, 1998

The Public Employees' Retirement Board (PERB) administers eight defined benefit retirement plans - the Public Employees' Retirement System (PERS), Municipal Police Officers' Retirement System (MPORS), Game Wardens and Peace Officers' Retirement System (GWPORS), Sheriffs' Retirement System (SRS), Judges Retirement System (JRS), Highway Patrol Officers' Retirement System (HPORS), Firefighters' Unified Retirement System (FURS) and the Volunteer Firefighters' Compensation Act (VFCA). Each plan's assets are maintained separately and may be used only for the payment of benefits to the members of that plan, in accordance with the terms of the plan as prescribed in Title 19, of the Montana Code Annotated.

A. Summary of Significant Accounting Policies

1. Basis of Accounting

The PERB is a discretely presented component unit Pension Trust Fund of the State of Montana financial reporting entity. The accounting records and financial statements are prepared by the Public Employees' Retirement Division (PERD) using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized in the accounting period in which they are earned and become measurable. Administrative expenses are financed through investment earnings and membership fees.

2. Property and Equipment Used in Operations

The building is a fixed asset used in operations and is reported at historical cost (plus improvements) net of depreciation. The depreciation is calculated using the straight line method over the estimated useful life of 40 years. Land is presented at historical cost. Equipment, valued at \$5,000 or more, is recorded at cost less straight line depreciation over the estimated useful life of five to ten years. Equipment under \$5,000 is expensed in the year purchased.

The State of Montana implemented a policy change for capitalization of fixed assets effective July 1, 1997. During fiscal year 1998, the capitalization threshold for fixed assets was increased from \$1,000 to \$5,000. As a result of this policy change

all fixed assets with a value of less than \$5,000 were removed from the accounting records. The *Statement of Plan Net Assets* and the *Statement of Changes in Plan Net Assets* includes a prior period adjustment to reflect this change.

3. Method Used to Value Investments

Investments of the funds are invested and managed on the funds' behalf by the Montana Board of Investments (BOI), Department of Commerce. Investments are purchased in accordance with the statutorily mandated "prudent expert principle." Investments are reported at fair value. There are four major diversified pools: Montana Short Term Investment Pool (STIP), Montana Stock Pool (Montcomp), Retirement Funds Bond Pool (RFBP) and the Montana International Pool (MTIP).

- a. **STIP** portfolio includes asset-backed securities, bankers' acceptances, certificates of deposit, commercial paper, corporate and government securities, repurchase agreements and variable-rate (floating-rate) instruments. These securities provide a diversified portfolio earning a competitive total rate of return. Funds may be invested for relatively short periods. The PERB elects to have all STIP income automatically reinvested. Investments are reported at fair value based on market prices supplied to the BOI by various pricing services. The unit value is fixed at \$1.00. A purchased unit earns income on the purchase date and ceases to earn income on the day before the unit is sold. STIP income reflects the monthly earnings of the STIP portfolio and is distributed on the first calendar day of the month with the exception of the June distribution. Income for June is distributed on last calendar day of the month. Administrative expenses incurred by the BOI are charged daily to STIP based on their expenses applicable to STIP. STIP investments are required to have the highest rating in the short term category by any nationally recognized statistical rating organization. STIP is considered an external investment pool per Governmental Accounting Standards Board (GASB) Statement No. 31, and participation is involuntary. *Disclosure about Derivatives:* STIP holds two types of securities required to be disclosed per the GASB: asset-backed securities and variable interest rate securities. Asset-backed securities are collateralized by a pool of mortgage and non-mortgage assets pledged by the issuer. Variable-rate (floating-rate) securities are sensitive to interest rate changes. There are no legal risks that the BOI is aware of regarding any STIP investments.
- b. **Montcomp** portfolio includes common stock in public corporations and convertible equity securities. Montcomp is carried at fair value for financial reporting purposes. Fair values for publicly traded convertible debt securities are determined, primarily, by reference to market prices supplied to the BOI by its custodial bank, State Street Bank, or various brokerage services. Equity investments, traded on a national security exchange, are stated at the last reported sales price on valuation day, while equity

securities traded in the over-the-counter market are stated at the last quoted bid price. Unit values are calculated once a month at the close of the last business day of the month, based upon the fair value of the Montcomp equity holdings and other assets. Units are bought/sold upon the decision of the BOI's Investment Officer. Investments in common stock cannot exceed 50% of the fund [17-6-201, MCA].

- c. **RFBP** portfolio includes corporate asset-backed, other corporate, U.S. government mortgage-backed, U.S. government and yankee securities. RFBP investments are presented at fair value. Fair values are determined, primarily, by reference to fair prices supplied to the BOI by its custodial bank, State Street Bank. Premiums and discounts are amortized/accreted using the straight-line or interest method to the call, average life or maturity date of the securities. Unit values are calculated weekly, based on portfolio pricing, to allow for participant transactions to occur as determined by the BOI's Investment Officer. Accumulated income is distributed monthly on the first calendar day of the month. Realized portfolio gains/losses are distributed, at least, annually. *Disclosure about Derivatives:* The RFBP portfolio includes structured financial instruments known as REMICs (Real Estate Mortgage Investment Conduits). These securities are required to be disclosed per GASB. REMICs are pass-through vehicles for multiclass mortgage-backed securities. Some REMICs are principal-only strips (POs) and interest-only (IOs). As of June 30, 1998, the pool had no legal risk.
- d. **MTIP** portfolio includes equity investments in three funds -- Board of Investment's Internal International, Schroder Capital Management International and SG Pacific Asset Management, formerly Yamaichi Capital Management, Inc. The three funds may invest in securities of foreign-based corporations listed on legal and recognized foreign exchanges as well as domestic exchanges. Investments are presented at current U.S. dollar value after conversion from foreign currency by the custodial bank, State Street Bank and Trust. Unit values are calculated once a month at the close of the last business day of the month. Realized gains/losses from the sale of securities and related foreign exchange transactions are retained by the fund. MTIP income is distributed quarterly to the retirement fund, net of external manager fees and administrative expenses, on the first business day of the following month.
- e. **Other Investments** include real estate, venture capital, leveraged buy-outs and mortgages. Venture capital represents private equity investments in early stage financing of rapidly growing companies with an innovative product or service. Leveraged buy-outs permit investment groups to acquire a company by leveraging debt, as a financing technique, to establish a significant ownership position on behalf of the company's current management team. Real estate investments and residential and commercial

mortgages are valued based on a discounted cash flow. All other investments are presented at fair value. Fair values are determined, primarily, by reference to fair value prices supplied to the BOI by its custodial bank, State Street Bank or various brokerage services.

- f. ***Securities Lending*** Under the provisions of State statutes, the BOI has, via, a Securities Lending Authorization Agreement authorized the custodial bank, State Street Bank and Trust, to lend the BOI's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the BOI receives a fee and the custodial bank must initially receive collateral equal to 105 percent of the fair value of the loaned securities and maintain collateral equal to not less than 100 percent of the market value of the loaned security. The BOI retains all rights and risks of ownership during the loan period.

During fiscal year 1998, State Street Bank lent, on behalf of the BOI, certain securities held by State Street, as custodian, and received U.S. dollar currency cash, U.S. government securities, and irrevocable bank letters of credit. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

The BOI did not impose any restrictions during fiscal year 1998 on the amount of the loans that State Street Bank made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal year 1998. Moreover, there were no losses during fiscal year 1998 resulting from a default of the borrowers or State Street Bank.

During fiscal year 1998, the BOI and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and the BOI's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the BOI could not determine. On June 30, 1998, the BOI had no credit risk exposure to borrowers.

B. Plan Descriptions & Contribution Information

The plans are established and amended statutorily by the State Legislature. In all plans (except the VFCA), if a member leaves covered employment before retirement, member contributions plus accrued interest earnings may be refunded to the member. If a member

returns to service and repays the withdrawn contributions plus the interest the contributions would have earned had they remained on deposit, membership service is fully restored.

The 1997 Legislature passed a guaranteed annual benefit adjustment (GABA) to provide a benefit increase of 1.5% each January, beginning in January 1998, if the recipient has been receiving a benefit for at least 36 months. This benefit applies to all of the retirement plans (except VFCA); however, the MPORS, JRS, HPORS and FURS members hired prior to July 1, 1997 and the retirees of these plans were required to make an election by December 31, 1997 for the GABA coverage.

Membership of each plan consisted of the following at June 30, 1998, the date of the latest actuarial valuation:

PERS Membership

<i>Number of participating employers</i>	499
<i>Active plan members</i>	28,091
<i>Terminated plan members entitled to but not yet receiving benefits or a refund:</i>	
Vested	1,653
Non-vested	8,474
<i>Retirees and beneficiaries receiving benefits:</i>	
Service Retirements	12,363
Disability Retirements	303
Survivor Benefits	258

MPORS Membership

<i>Number of participating employers</i>	20
<i>Active plan members</i>	545
<i>Terminated plan members entitled to but not yet receiving benefits or a refund:</i>	
Vested	10
Non-vested	49
<i>Retirees and beneficiaries receiving benefits:</i>	
Service Retirements	476
Disability Retirements	25
Survivor Benefits	29

GWPORS Membership

<i>Number of participating employers</i>	8
<i>Active plan members</i>	327
<i>Terminated plan members entitled to but not yet receiving benefits or a refund:</i>	
Vested	2
Non-vested	17
<i>Retirees and beneficiaries receiving benefits:</i>	
Service Retirements	72
Disability Retirements	2
Survivor Benefits	4

SRS Membership

<i>Number of participating employers</i>	55
<i>Active plan members</i>	611
<i>Terminated plan members entitled to but not yet receiving benefits or a refund:</i>	
Vested	20
Non-vested	134
<i>Retirees and beneficiaries receiving benefits:</i>	
Service Retirements	136
Disability Retirements	25
Survivor Benefits	14

JRS Membership

<i>Number of participating employers</i>	1
<i>Active plan members</i>	44
<i>Terminated plan members entitled to but not yet receiving benefits or a refund:</i>	
Vested	1
Non-vested	0
<i>Retirees and beneficiaries receiving benefits:</i>	
Service Retirements	48
Disability Retirements	0
Survivor Benefits	2

HPORS Membership

<i>Number of participating employers</i>	1
<i>Active plan members</i>	185
<i>Terminated plan members entitled to but not yet receiving benefits or a refund:</i>	
Vested	8
Non-vested	4
<i>Retirees and beneficiaries receiving benefits:</i>	
Service Retirements	223
Disability Retirements	7
Survivor Benefits	14

FURS Membership

<i>Number of participating employers</i>	14
<i>Active plan members</i>	426
<i>Terminated plan members entitled to but not yet receiving benefits or a refund:</i>	
Vested	5
Non-vested	35
<i>Retirees and beneficiaries receiving benefits:</i>	
Service Retirements	408
Disability Retirements	14
Survivor Benefits	28

VFCA Membership

<i>Active plan members:</i>	2,537
<i>Retirees and beneficiaries receiving benefits:</i>	
Service Retirements	759
Survivor Benefits	2

Public Employees' Retirement System

Plan Description. The PERS is a multiple-employer, cost-sharing defined benefit plan that covers the State, university system and local governments. The plan was established in 1945 and is governed by Title 19, chapters 2 & 3 of the Montana Code Annotated. Benefits are established by State law and can only be amended by the Legislature. The PERS provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on age and/or years of service and highest average salary. Member rights are vested after five years of membership service. A brief summary of eligibility and benefits follows:

PERS Summary of Benefits

Highest Average Salary (HAS)	Highest consecutive 36 months
Years of Service required and/or age eligible for benefit	30 years any age; Age 65 regardless of years of service; Age 60 with 5 years of service; Age 50 with 5 years of service or 25 years of service - actuarially reduced
Vesting	5 years
Monthly Benefit Formula	1.785% of HAS per year of service

At June 30, 1998, the date of the most recent actuarial valuation there were 499 participating employers consisting of:

PERS Employer Types		
Employers	June 30, 1998	June 30, 1997
State Agencies	37	36
Counties	55	55
Cities & Towns	87	88
Colleges/Universities	6	6
School Districts	233	232
Other	81	79
Number of PERS employers	499	496

Contributions. Member and employer contribution rates are established by State law and may be amended only by the State Legislature. The member contribution rate for fiscal year 1998 and 1997 was 6.8% and 6.7%, respectively, of total monthly compensation. Contributions are deducted from each member's salary and remitted by participating employers. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed. Member contribution rates increase to 6.9% on July 1, 1999. Each State and university system employer contributed 6.8% of their total PERS-covered payroll on a monthly basis during fiscal year 1998. The participating local government and school district employer contributed 6.7% of their PERS-covered payroll. The State contributed 0.1% for local governments and school district employers from the general fund for fiscal year 1998. The contribution rate for all participating employers for fiscal year 1997 was 6.7%. Effective July 1, 1999 the

employer rate increases to 6.9%. (Reference *Schedule of Contribution Rates* on page A-26.)

Retirement Incentive. The Montana Legislature enacted a Retirement Incentive Program (RIP) [19-3-908, MCA] providing PERS members (eligible for a service retirement) an incentive to terminate between June 25, 1993 and December 31, 1993. Local government employers participated through election on or before June 1, 1993. The employer purchased, on the members' behalf, up to three years of "1-for-5" additional service for any retirement eligible member who terminated employment during the window. A total of 898 members took advantage of the program (630 from State agencies, 95 from universities, and 173 from local government agencies). The Montana Legislature also provided a new provision of the Employee Protection Act (EPA) [19-2-706, MCA] allowing State employees (eligible for a service retirement) whose positions have been eliminated on or before June 30, 1999 to have their employer purchase up to three years of "1-for-5" additional service. As of June 30, 1998, 173 employees have taken advantage of this provision. The employer has up to ten years to complete payment for the service purchases and is charged 8% interest on the unpaid balance. Total retirement incentive contributions received (including interest) during fiscal year 1998 totaled \$196,250. The outstanding balance at June 30, 1998 totaled \$638,797.

Municipal Police Officers' Retirement System

Plan Description. The MPORS is a multiple-employer, cost-sharing defined benefit plan that covers police officers employed by first and second class cities and other cities that wish to adopt the Plan. The plan was established in 1974 and is governed by Title 19, chapters 2 & 9 of the Montana Code Annotated. Benefits are established by State law and can only be amended by the Legislature. The MPORS provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on age and/or years of service and highest average salary. Membership rights are vested after five years of membership service. A brief summary of eligibility and benefits follows:

MPORS Summary of Benefits

Highest Average Salary (HAS)	Hired prior to July 1, 1977: Average monthly compensation of final year of service Hired after June 30, 1977: Average of regular monthly salary for last 36 consecutive months
Years of Service required and/or age eligible for benefit	20 years regardless of age; Age 50 with 5 years of service
Vesting	5 years
Monthly Benefit Formula	2.5% of HAS per year of service

Contributions. Member, employer and State contribution rates are established by State law and amended only by the State Legislature. Member contribution rates for fiscal years 1998 and 1997 were set by statute at 7.8% (for members hired prior to July 1, 1975), 9.0% (for members hired between July 1, 1975 and June 30, 1979), 10.5% (for members hired between July 1, 1979 and June 30, 1997), and 11% for members hired on or after July 1, 1997 and members electing GABA. Each participating city contributed 14.41% and 14.36%, during fiscal year 1998 and 1997, respectively, of their total MPORS-covered payroll to the retirement plan on a monthly basis. The State contributions are requested at the beginning of the next fiscal year based on the previous fiscal year salary and are due no later than November 1. The State contribution rate for fiscal year 1998 and 1997 is 29.37%. (Reference *Schedule of Contribution Rates* on page A-26.)

Benefit Enhancements. For members not electing GABA, the monthly retirement, disability or survivor's benefit must be at least one-half of the salary of a newly confirmed police officer in the city that last employed the member. If a benefit falls below that minimum, a supplemental benefit funded by the insurance premium tax fund, is paid to the benefit recipient. If a member or retiree elected the GABA, the supplement benefit is not available to them.

Game Wardens' and Peace Officers' Retirement System

Plan Description. The GWPORS is a multiple-employer, cost sharing defined benefit plan that covers State game wardens and State peace officers not eligible to join the SRS, HPORS or MPORS plans. The plan was established in 1963 and is governed by Title 19, chapters 2 & 8 of the Montana Codes Annotated. Benefits are established by State law and can only be amended by the Legislature. The GWPORS provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on age and/or service and highest average salary. Member rights are vested after five years of membership service. A brief summary of eligibility and benefits follows:

GWPORS Summary of Benefits

Highest Average Salary (HAS)	Highest consecutive 36 months
Years of service required and/or age eligible for benefits	Age 50 and 20 years of service; Age 55 and 5 years of service - involuntary termination
Vesting	5 years
Monthly Benefit Formula	2% of HAS per year of service

Effective July 1, 1997 the Game Wardens' Retirement System (GWRs) was expanded to include the State peace officers and the name was changed accordingly to the Game Wardens' and Peace Officers' Retirement System (GWPORS). This change resulted in an increase in membership. At June 30, 1998 the plan had 327 members, 90 game wardens and 237 peace officers. The membership on June 30, 1997 was 92. Peace officers hired after June 30, 1997 will become members of the GWPORS. Peace officers hired prior to July 1, 1997 were members of the PERS, and were required to make an election by December 31, 1997 to join the GWPORS. PERS members who hire into a position after July 1, 1997, covered by the GWPORS have 30 days to elect membership in the GWPORS. At June 30, 1998, the date of the most recent actuarial valuation, there were eight participating employers consisting of:

GWPORS Employer Types		
Employers	June 30, 1998	June 30, 1997
State Agencies	5	1
Colleges/Universities	3	0
Number of GWPORS employers	8	1

Contributions. Member and employer contribution rates are established by State law and may be amended only by the State Legislature. The employee contribution rate for fiscal years 1998 and 1997 was 8.5% and 7.9%, respectively. Contributions are deducted from each member's salary and remitted by the employer. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed. Each State and university employer contributed 9.0% and 8.15% of total GWPORS-covered payroll to the retirement plan on a monthly basis, during fiscal year 1998 and 1997, respectively. (Reference *Schedule of Contribution Rates* on page A-26.)

Sheriffs' Retirement System

Plan Description. The SRS is a multiple-employer, cost-sharing defined benefit plan that covers all Montana sheriffs and Department of Justice investigators hired after July 1, 1993. The plan was established in 1974 and is governed by Title 19, chapters 2 & 7 of the Montana Codes Annotated. Benefits are established by State law and can only be amended by the Legislature. The SRS provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on age and/or years of service and highest average salary. Member rights are vested after five years of service. A brief summary of eligibility and benefits follows:

SRS Summary of Benefits	
Highest Average Salary (HAS)	Highest consecutive 36 months
Year of service required and/or age eligible for benefits	20 years regardless of age; Age 50 and 5 years service - actuarially reduced
Vesting	5 years
Monthly Benefit Formula	2.5% of HAS per year of service

At June 30, 1998, the date of the most recent actuarial valuation there were 55 participating employers consisting of:

SRS Employer Types		
Employers	June 30, 1998	June 30, 1997
State Agencies	1	1
Counties	54	54
Number of SRS employers	55	55

Contributions. Member and employer contribution rates are established by State law and may be amended only by the State Legislature. The member contribution rate for fiscal years 1998 and 1997 was 9.245% and 7.865%, respectively. Contributions are deducted from each member's salary and remitted by the employer. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed. Each employer contributed 9.535% and 8.535% of their total SRS-covered payroll to the retirement plan on a monthly basis, during fiscal years 1998 and 1997, respectively. (Reference *Schedule of Contribution Rates* on page A-26.)

Benefit Change. Effective July 1, 1997, the retirement benefit for members of the SRS increased from 2.0834% per year of service to 2.5% per year of service.

Judges' Retirement System

Plan Description. The JRS is a single-employer, defined benefit plan that covers all Montana judges of the district courts, justices of the Supreme Court, and the Chief Water judge. The plan was established in 1967 and is governed by Title 19, chapters 2 & 5 of the Montana Codes Annotated. Benefits are established by State law and can only be amended by the Legislature. The JRS provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on age and/or years of service and highest average salary. Member rights are vested after five years of membership service. A brief summary of eligibility and benefits follows:

JRS Summary of Benefits	
Highest Average Salary (HAS)	Hired prior to July 1, 1997 & not electing GABA: Monthly compensation at time of retirement Hired after June 30, 1997 or electing GABA: Highest consecutive 36 months
Years of service required and/or age eligible for benefits	Age 65 and 5 years of service; Any age with 5 years of service - involuntary termination, actuarially reduced
Vesting	5 years
Monthly Benefit Formula	3 1/3 % of HAS per year of service (up to 15 years) plus 1.785 % of HAS per year (over 15 years)

Contributions. Member and employer contribution rates are established by State law and may be amended only by the State Legislature. The member contribution rate for fiscal years 1998 and 1997 was 7.0% of total monthly compensation. Contributions are deducted from each member's salary and remitted by the employer. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed. The State contributed 25.81% and 6.0% of their total JRS-covered payroll to the retirement plan on a monthly basis, during fiscal years 1998 and 1997, respectively. The change in rate eliminated the method of depositing district court fees into the retirement fund. (Reference *Schedule of Contribution Rates* on page A-26.)

Prior to July 1, 1997 the State was required to contribute an amount equal to 34.71% of members salaries from district court fees transmitted to the State by clerks of the district courts. District court fees did not generate the cash flow for the JRS as required by 19-5-404, MCA, for several years. Legislation was passed to actuarially fund the JRS and have

the court fees deposited into the general fund and then have the State transfer the statutorily required amount to the retirement plan beginning July 1, 1997.

Benefit Enhancements. Since *current salary* is used in the calculation of the monthly benefit for the JRS, each time the legislature increased the salaries for active judges, benefits for retired judges (or eligible contingent annuitants) increase. Effective July 1, 1997, *final average salary* (the average of the member's highest monthly compensation during any 36 consecutive months of membership service in the retirement plan) will be substituted for *current salary* in the benefit formula for all new hires and those members electing GABA.

Highway Patrol Officers' Retirement System

Plan Description. The HPORS is a single-employer, defined benefit plan that covers all Montana highway patrol officers, including supervisory personnel. The plan was established in 1971 and is governed by Title 19, chapters 2 & 6 of the Montana Codes Annotated. Benefits are established by State law and can only be amended by the Legislature. The HPORS provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on age and/or years of service and highest average salary. Member rights are vested after five years of membership service. A brief summary of eligibility and benefits follows:

HPORS Summary of Benefits	
Highest Average Salary (HAS)	Highest consecutive 36 months
Years of Service Required and/or age eligible for benefits	20 years - hired on or before July 1, 1985; Age 50 and 20 years service - hired after July 1, 1985
Vesting	5 years
Monthly Benefit Formula	2.5% of HAS per year of service

Contributions. Member and employer contribution rates are established by State law and may be changed only by the State Legislature. The member contribution rate for fiscal year 1998 was 9.0% of total monthly compensation for members hired prior to July 1, 1997 and not electing GABA coverage, and 9.05% for new hires after June 30, 1997 and members electing GABA coverage. The contribution rate for fiscal year 1997 was 9.0%. Contributions are deducted from each member's salary and remitted by the employer. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed. Employer contribution rates were 36.33% and 36.28% of their total HPORS-covered payroll, during fiscal year 1998 and 1997, respectively. The first 26.15% is payable from the same source used to the pay members' compensation. The remaining amount, equal to 10.18% of members'

compensation is payable from a portion of the fees collected from drivers' licenses and duplicate drivers' license applications. (Reference *Schedule of Contribution Rates* on page A-26.)

Twenty-five cents of each motor vehicle registration fee must be deposited in the HPORS trust fund by the end of each fiscal year. This additional contribution funds the supplemental lump-sum benefit for eligible recipients.

Benefit Enhancements. Monthly benefits are increased each July when they fall below a statutorily guaranteed minimum which is calculated as: $2\% \times \text{years of service} \times \text{current base salary}$ of a probationary highway patrol officer. Any annual increase is limited to 5% over the current benefit and may not exceed 60% of the current base salary of a probationary officer. This enhancement is limited to non-GABA members.

Montana highway patrol officers, retired prior to July 1, 1991, or their survivors, may be eligible for an annual supplemental lump-sum payment distributed in September. This supplemental benefit is funded by a portion of each motor vehicle registration fee. Many factors must be considered for eligibility, among them are the number of years the recipient has received a benefit and the recipient's age. The average payment in fiscal year 1998 was \$1,937. In fiscal year 1997, the average payment was \$1,894. This enhancement is limited to non-GABA members.

Firefighters' Unified Retirement System

Plan Description. The FURS is a multiple-employer, cost-sharing defined benefit plan that covers firefighters employed by first and second class cities and other cities that wish to adopt the plan. The plan was established in 1981 and is governed by Title 19, chapters 2 & 13 of the Montana Code Annotated. Benefits are established by State law and can only be amended by the Legislature. The FURS provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on age and/or years of service and highest average salary. Member rights are vested after ten years of membership service. A brief summary of eligibility and benefits follows:

FURS Summary of Benefits

Highest Average Salary (HAS)	Hired prior to July 1, 1981: Last regular monthly compensation Hired after July 1, 1981: Last consecutive 36 months
Years of Service Required and/or age eligible for benefits	20 years regardless of age; Hired before July 1, 1981: 10 years but less than 20 years
Vesting	10 years
Monthly Benefit Formula	Not electing GABA and hired before July 1, 1981: the greater of 50% of HAS plus 2% per year (over 20) or 2.5% per year of HAS; Hired before July 1, 1981 with 10 years but less than 20 years: 2% per year of service; Electing GABA and hired after July 1, 1981: 2.5% per year of service of HAS

Contributions. Member, employer and State contribution rates are established by State law and may be amended only by the State Legislature. The member contribution rates for fiscal year 1998 were 9.5% for members hired prior to July 1, 1997 and 10.7% for new hires after June 30, 1997 and for members electing GABA coverage. The contribution rate for fiscal year 1997 was 7.8%. Contributions are deducted from each member's salary and remitted by the employer. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed. Employer contribution rates for fiscal years 1998 and 1997 were 14.36% of total FURS-covered payroll. The State contributed 32.61% of the total compensation for all covered firefighters in fiscal years 1998 and 1997. State contributions are requested at the beginning of the next fiscal year based on the previous fiscal year salary and are due no later than November 1. (Reference *Schedule of Contribution Rates* on page A-26.)

Benefit Enhancements. For members not electing GABA the monthly retirement, disability or survivor's benefit must be at least one-half of the salary of a newly confirmed firefighter employed by the city that last employed the member. If a benefit falls below that minimum, a supplemental benefit is paid to the benefit recipient. If a member or retiree elected GABA, the supplemental benefit is not available.

Volunteer Firefighters' Compensation Act

Plan Description. The VFCA is a statewide retirement and disability plan. This compensation program was established in 1965 and is governed by Title 19, chapter 17 of the Montana Code Annotated. Benefits are established by State law and can only be

amended by the Legislature. The VFCA provides retirement, disability and death benefits for all volunteer firefighters of companies organized in unincorporated areas, towns or villages under the laws of the State of Montana. Benefits are based on age and years of service. Member rights are vested after ten years of credited membership service. A brief summary of eligibility and benefits follows:

VFCA Summary of Benefits	
Years of Service Required and/or age eligible for benefits	Age 55 and 20 years of qualified service; Age 60 and at least 10 years of service - partial benefit
Vesting	10 years
Benefit	\$5 per year of service

Contributions. The State contributes 5% of the premium taxes collected on certain fire risks. Payments are made annually to the Volunteer Firefighters' Pension Fund by the State Auditor from the fire insurance premium tax fund. (Reference *Schedule of Contribution Rates* on page A-26.)

Group Insurance Payments. Supplemental payments are available to those volunteer fire companies providing additional group medical insurance for their members in case of death or injury incurred while in the line of duty. The payment is made to the volunteer fire companies and is equal to \$75 per year for each mobile firefighting unit owned by the volunteer fire company, up to a maximum of two units.

FY 1998 Schedule of Contribution Rates

Plan	Employee	Employer	State
PERS	6.8%	6.8% - State & University 6.7% - Local Governments	0.1% - paid from General Fund as provided in 19-3-319, MCA
MPORS	7.8% - employed prior 07-01-75 & not electing GABA 9.0% - hired between 07-01-75 & 06-30-79 & not electing GABA 10.5% - hired between 07-01-79 & 06-30-97 & not electing GABA 11.0% - new hires after 06-30-97 & members electing GABA	14.41%	29.37% of salaries - paid from premium tax fund as provided in 19-2-702, MCA
GWPORS	8.5%	9.0%	
SRS	9.245%	9.535%	
JRS	7.0%	25.81%	
HPORS	9.0% - Hired prior to 07-01-97 & not electing GABA 9.05% - electing GABA & new hires after 06-30-97	26.15%	10.18% of salaries - paid from drivers' license fees as provided in 61-5-121, MCA
FURS	9.5% - hired prior to 07-01-97 & not electing GABA 10.7% - electing GABA & new hires after 06-30-97	14.36%	32.61% of salaries - paid from insurance premium tax fund as provided in 19-13-604, MCA
VFCA			5.0% - of fire insurance premiums received by the State as provided in 19-17-301, MCA

Public Employees' Retirement Board

Required Supplementary Information

Schedule of Funding Progress

(in thousands)

System	Actuarial Valuation Date	Actuarial Value of Assets* (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll** (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)	System
PERS	06/30/94	\$1,366,864	\$1,625,720	\$258,856	84.08%	\$572,973	45.18%	JRS
	06/30/96	1,629,707	1,826,207	196,500	89.24%	608,592	32.29%	
	06/30/98	2,113,314	2,298,702	185,387	91.94%	660,579	28.06%	
MPORS	06/30/94	\$56,209	\$90,508	\$34,299	62.10%	\$13,395	256.06%	HPORS
	06/30/96	70,068	105,664	35,596	66.31%	15,828	224.89%	
	06/30/98	94,908	173,642	78,735	54.66%	17,873	440.52%	
GWPORS	06/30/94	\$16,297	\$16,389	\$92	99.44%	\$2,494	3.70%	FURS
	06/30/96	18,160	17,325	(835)	104.82%	2,762	-30.23%	
	06/30/98	23,190	22,412	(778)	103.47%	7,839	-9.92%	
SRS	06/30/94	\$55,220	\$42,978	(\$12,242)	128.48%	\$15,869	-77.14%	VFCA
	06/30/96	68,646	52,751	(15,895)	130.13%	17,890	-88.85%	
	06/30/98	92,160	81,077	(11,083)	113.67%	20,127	-55.06%	

Analysis of the dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing plan net assets as a percentage of the actuarial accrued liability provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger, the plan.

* Refer to the "Notes to the Required Supplementary Information" for the Actuarial Asset Valuation Method. (On Pages A-33)

** Covered payroll was unavailable prior to FY96. The actuarial annual payroll figure is used for FY94. This figure is estimated by annualizing the June payroll.

Page 27
10/2

Actuarial Valuation Date	Actuarial Value of Assets* (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll** (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
--------------------------------	---	---	------------------------------------	--------------------------	-----------------------------	--

06/30/94	\$21,281	\$23,171	\$1,890	91.84%	\$2,777	68.06%
06/30/96	24,944	27,723	2,779	89.98%	2,907	95.61%
06/30/98	31,646	29,017	(2,629)	109.06%	3,144	-83.62%

06/30/94	\$40,466	\$63,327	\$22,861	63.90%	\$5,650	404.60%
06/30/96	47,325	67,709	20,384	69.90%	6,242	326.57%
06/30/98	59,531	78,722	19,191	75.62%	6,201	309.48%

06/30/94	\$54,647	\$113,153	\$58,506	48.29%	\$12,424	470.90%
06/30/96	67,745	131,111	63,366	51.67%	13,783	459.75%
06/30/98	89,988	169,006	79,017	53.25%	15,104	523.15%

06/30/93	\$8,760	\$15,211	\$6,451	57.59%	NA	NA
06/30/96	11,504	16,636	5,132	69.15%	NA	NA
06/30/98	13,941	18,354	4,412	75.96%	NA	NA

Public Employees' Retirement Board

Required Supplementary Information

Schedule of Employer Contributions & Other Contributing Entities

System	Year Ended June 30	Annual Required Contribution*	Percentage Contributed	Annual Required State Contribution**	Percentage Contributed
PERS	1993	\$36,770,109	99.64 %		
	1994	38,389,233	100.05 %		
	1995	40,348,432	96.93 %		
	1996	40,775,671	101.26 %		
	1997	43,182,090	101.26 %		
	1998	\$44,919,404	100.29 %	\$303,840	100.00 %
MPORS	1993	\$1,746,260	130.69 %	\$1,911,530	107.63 %
	1994	1,923,529	99.66 %	2,109,549	100.00 %
	1995	2,051,758	123.18 %	2,266,113	100.00 %
	1996	2,272,843	98.93 %	2,496,912	100.00 %
	1997	2,415,188	100.27 %	4,939,713	100.00 %
	1998	\$2,575,528	102.33 %	\$5,264,852	100.00 %
GWPORS	1993	\$186,968	106.31 %		
	1994	203,289	95.57 %		
	1995	190,961	96.64 %		
	1996	225,083	102.21 %		
	1997	242,379	103.16 %		
	1998	\$705,518	115.98 %		
SRS	1993	\$1,095,102	102.21 %		
	1994	1,217,138	98.68 %		
	1995	1,221,535	105.50 %		
	1996	1,526,895	102.05 %		
	1997	1,617,568	104.01 %		
	1998	\$1,919,104	102.62 %		

Reference to Notes to the Required Supplementary Information (On Page A-33)

* Annual Required Contribution (ARC) for fiscal years 1993 through 1995 is calculated using the actuarial annual payroll figure which is an estimated figure determined by annualizing the June payroll.

** PERS's State Contribution of .1% for local governments is based on actual receipts for the fiscal year. MPORS covered payroll is based on calendar year payroll for the State Contribution for FY 1993 through 1996 and fiscal year payroll for FY 1997 and 1998.

Public Employees' Retirement Board

Required Supplementary Information

Schedule of Employer Contributions & Other Contributing Entities (continued)

System	Year Ended June 30	Annual Required Contribution*	Percentage Contributed	Annual Required State Contribution**	Percentage Contributed	Annual Required District Court Fee
JRS	1993	\$163,166	97.89%			\$943,917
	1994	166,610	99.64%			963,836
	1995	142,254	116.37%			822,940
	1996	174,396	100.05%			1,008,881
	1997	177,181	100.00%			1,024,995
	1998	\$811,419	103.90%			0
HPORS	1993	\$1,448,453	105.68%			
	1994	1,474,717	105.10%			
	1995	1,411,990	107.73%			
	1996	1,629,088	100.16%			
	1997	1,642,087	100.00%			
	1998	\$1,621,691	105.24%			
FURS	1993	\$1,505,263	100.35%	\$2,738,254	100.05%	
	1994	1,617,640	99.82%	2,616,864	104.64%	
	1995	1,665,257	103.01%	2,492,591	123.74%	
	1996	1,979,190	99.02%	2,453,397	126.03%	
	1997	2,082,389	99.72%	4,728,879	98.18%	
	1998	\$2,168,902	98.77%	\$4,925,341	97.37%	
VFCA	1993	\$668,767	100%			
	1994	765,549	100%			
	1995	809,103	100%			
	1996	862,010	100%			
	1997	910,692	100%			
	1998	\$928,484	100%			

Reference to Notes to the Required Supplementary Information (On Page A-33)

* Annual Required Contribution (ARC) for fiscal years 1993 through 1995 is calculated using the actuarial annual

** Covered payroll is based on calendar year payroll for the State Contribution for FY 1993 through 1996 and fiscal

Page A-31
10/28

Percentage Contributed	Annual Required Supreme Court Fees	Percentage Contributed	Annual Required License Fees	Percentage Contributed	Annual Required Registration Fees	Percentage Contributed
63.12%	\$8,474	100.00%				
62.67%	9,560	100.00%				
71.79%	10,138	100.00%				
60.79%	8,958	100.00%				
57.84%	9,869	100.00%				
0.00%	\$0	0.00%				

\$564,952	105.49%	\$255,462	100.00%
575,196	93.99%	266,485	100.00%
550,730	107.61%	274,117	100.00%
635,407	100.54%	270,833	100.00%
640,477	100.60%	287,284	100.00%
\$631,312	109.01%	\$281,874	100.00%

payroll figure which is an estimated figure determined by annualizing the June payroll.
year payroll for FY 1997 and 1998.

Page A-31 2/2/98 Side Pay Side

Public Employees' Retirement Board

Notes to the Required Supplementary Information

The information presented in the required supplementary schedules was determined as latest actuarial valuation follows:

	PERS	MPORS	GWPORS
Valuation date	June 30, 1998	June 30, 1998	June 30, 1998
Actuarial cost method	Entry Age	Entry Age	Entry Age
Amortization method	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open
Remaining amortization period in years:			
Unfunded Liability	12.75	17.67	
Unfunded Credit*			30
Asset valuation method	4-Year smoothed market	4-Year smoothed market	4-Year smoothed market
<i>Actuarial assumptions:</i>			
Investment rate of return compounded annually	8%	8%	8%
Projected salary increases			
Inflation	6.25%	6.00%	6.00%
Merit	None	None	None
Cost-of-living adjustments	None	None	None

* Assets are larger than the past service liability -- creating an unfunded credit; the credit is amortized over future costs.

Page 4-33 10/18

part of the actuarial valuations at the dates indicated. Additional information as of

SRS	JRS	HPORS	FURS	VFCA
June 30, 1998	June 30, 1998	June 30, 1998	June 30, 1998	June 30, 1998
Entry Age	Entry Age	Entry Age	Entry Age	Entry Age
Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open
30	24.64	20.28	19.34	25
4-Year smoothed market	4-Year smoothed market	4-Year smoothed market	4-Year smoothed market	4-Year smoothed market
8%	8%	8%	8%	8%
6.00%	5.50%	6.00%	6.00%	None
None	None	None	None	None
None	5.5%--assumed increase for current judges	6%--assumed increase for newly confirmed officer	6%--assumed increase for newly confirmed officer	None

Page 12-13-82 2 of 2 Side 101 Side

Public Employees' Retirement Board

Supporting Schedule

Schedule of Administrative Expenses

Year Ended June 30, 1998

Personal Services

Salaries	\$	535,892	
Board Members' Per Diem		8,600	
Employee Benefits		143,373	
Total Personal Services			\$ 687,865

Other Services

Consulting Services	\$	73,579	
Janitorial Services		2,964	
Legal Fees and Court Costs		4,867	
Payroll and Audit Fees		23,818	
Medical Services		11,567	
Microfilming		4,298	
Records Storage		3,390	
Pre-Retirement Seminars		1,500	
Computer Processing		52,099	
Computer Systems Development		97,068	
Printing and Photocopy Charges		34,079	
Warrant Writing Services		34,211	
Other		32,131	
Total Other Services			375,571

Communications

Postage and Mailing	\$	53,363	
Telephone		9,250	
Total Communications			62,613

Other Expenses

Supplies and Materials	\$	59,611	
Travel		20,289	
Rent		61,250	
Utilities		8,104	
Repair and Maintenance		576	
Depreciation/Amortization		3,160	
Compensated Absences		8,804	
Miscellaneous		53,563	
Total Other Expenses			215,357

Total Administrative Expenses

\$ 1,341,406

Public Employees' Retirement Board

Supporting Schedule Schedule of Investment Expenses Year Ended June 30, 1998

Retirement System	Fees
PERS	\$ 1,708,619
MPORS	47,431
GWPORS	11,900
SRS	47,620
JRS	20,882
HPORS	33,834
FURS	39,403
VFCA	9,382
Total Investment Expenses	\$ <u>1,919,071</u>

Public Employees' Retirement Board

Supporting Schedule Schedule of Consultants Year Ended June 30, 1998

Individual or Firm	Nature of Service	Amount
Board of Investments, Department of Commerce	Investment Managers	\$ 1,919,071
Information Services Division, Department of Administration	System Design and Processing	149,167
Employee Benefit Resources, LLP	Actuarial Consultant	36,300
Ice Miller Donadio & Ryan	Tax Consultant	36,000
Legislative Audit Division	Independent Auditors	22,794
Lawrence R. McEvoy, MD	Medical Consultant	5,250
Professional Development Center, Department of Administration	Retirement Planning Seminars	1,500
Comserv, Inc	Death Information System Services	464
Robert J. Bateen, PHD	Psychological Counseling Service	365

